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ECONOMIC INTELLIGENCE WEEKLY

14 May 1975

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Publications of Interest

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Overview

The EC Continues To Expand Economic Ties with Developing Countries. The Community last week signed an agreement with Israel providing for the mutual elimination of customs duties on most products by 1980. The EC also is preparing to resume its dialogue with the Arabs and currently is renegotiating nonpreferential accords with several Latin American countries. These moves follow the successful conclusion of the Lome Convention, which granted 46 African and former Commonwealth countries duty-free status for most products.

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[redacted] Brazil are Engaged in Stepped-Up Trade Promotion Programs. [redacted]

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[redacted] Brazil, seeking to broaden its European markets, has appointed economic officials to ambassadorships and sent out delegations to drum up business.

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Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

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The Growth in OPEC Foreign Official Assets will slow this year. Holdings rose by $52 billion in 1974, to $73 billion by yearend, and will probably reach $120 billion at the end of 1975.

The gradual trend is toward (a) longer term placements; (b) more investment in continental Europe, Japan, and Canada and less in the United Kingdom; and (c) greater currency diversification, largely at the expense of sterling. Kuwait, in particular, is moving to invest more of its revenues in long-term assets such as equities and real estate.

At the same time, OPEC investment in sterling has slowed to a trickle, now less than $100 million a month. [redacted] 25X6 25X6 (Confidential No Foreign Dissem)

Articles

KUWAIT: GROWING INTEREST IN LONG-TERM ASSETS

Kuwait, OPEC's most aggressive investor, is moving to place an increasing proportion of its surplus oil earnings in long-term foreign assets – equities, bonds, and real estate. US private assets are receiving particular attention. We estimate that, by yearend 1975, one-third to one-half of Kuwaiti foreign holdings will consist of long-term assets.

At the end of 1974, three-fourths of the $10.4 billion in foreign holdings were in short-term assets, a reflection of

- the inability of Kuwaiti financial institutions to rapidly place much of the vastly increased oil revenues in long-term investments;
- the unusually high level of short-term interest rates;
- the recession in industrial countries, which discouraged the purchase of equities; and
- the political uncertainties caused by the festering Arab-Israeli dispute, the oil embargo, the price increases for oil, and the flood of Arab petrodollars into a few developed countries.

Finance Minister Atiqi is not satisfied with the present portfolio of foreign holdings, presumably because short-term interest rates have declined and because widespread expectations of an economic upturn have made equities more attractive than before. With only a million people and few resources other than oil, Kuwait has meager opportunity for economic diversification. Atiqi recognizes that investment income must eventually become an important supplement to oil earnings. Most other OPEC members, in contrast, view foreign assets as a temporary resting place for funds – until they are needed for domestic development.

Known Kuwaiti plans for long-term investments involve a sum in excess of the $6 billion in surplus oil revenues that we estimate for 1975.

- Kuwait Property International, a joint venture with the Bank of America, will be used by the Ministry of Finance to purchase real estate in the western United States, Canada, and Mexico; it may invest $200 million or more in the United States alone in 1975.

- o A similar arrangement already made with Chase Manhattan Bank could result in a like amount of real estate purchases in the eastern United States this year.

- The Ministry of Finance has roughly $5 billion in nine major investment accounts in US, Swiss, and German banks and in the Kuwaiti Investment Office in London; these funds are destined for purchases of equities and other long-term assets.

- Kuwaiti investment institutions have recently been active managers, underwriters, and purchasers of Eurobonds; purchases are likely to approach $1 billion in 1975.

- Major equity investments in Brazil and Australia are also receiving serious consideration.

Domestic and foreign criticism of Atiqi's investment policies will keep these programs from being fully carried out this year. Some Kuwaitis oppose placement of substantial funds in the United States, Israel's principal supporter and arms supplier. The Kuwaiti purchase of Kiawah Island off South Carolina and of a major interest in Daimler-Benz have evoked US and German criticism. We nonetheless anticipate new long-term Kuwaiti investment of between $2.5 billion and $5 billion in 1975, barring another Middle East war. (Secret No Foreign Dissem)■

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IRAN: TROUBLED GROWTH

The Shah's sense of urgency and petrobillions cannot quickly overcome shortages of skilled labor, inadequacies of transportation facilities, and inexperience in running modern industrial projects. In spite of continued high growth rates, the Shah's dream of the industrialization of Iran is not attainable within the next decade.

Goals Versus Capabilities

The Shah has ambitious goals for the development of a modern large-scale industrial sector, including facilities to produce late-model weapons. Oil earnings, which ballooned to $20 billion in 1974, are to provide the wherewithal for growth.

Oil is clearly recognized as a finite resource, to be used to build up other energy sources (including nuclear power) and other exports against the day when oil deposits are exhausted. Nonetheless, non-oil exports are expected to expand only from $1 billion to $4 billion by 1980, providing less than one-fifth of export revenues.

The rapid growth rate starts from a low industrial base, and the country will remain relatively underdeveloped. GNP, which reached $40 billion in 1974, has grown at a real rate averaging 12% since 1965. The rate will probably be pressed down to 10% and lower in the next five years as strains develop in the economy.

- Skilled and semiskilled workers are in short supply and the introduction of foreign labor already is creating housing, food, and social problems.
- Port congestion and an inadequate internal transportation network hamper the flow of materials and equipment.
- Production and imports lag behind the surge in demand, creating shortages and contributing to inflation.

In addition to physical limitations, Tehran acknowledges that a current account deficit is likely within a few years, requiring a return to borrowing on international financial markets. Oil output is running 10% below the 6 million b/d produced in 1974. The long-term outlook is for even lower production – giving impetus to Iranian concern over oil prices.

As a result of these constraints, many projects on the drawing board, except those dealing with military expansion, probably will be deferred or implemented at a slower pace.

Foreign Industrial Assistance

The compounding of problems has not yet led the Shah to temper his harsh demands in negotiations for foreign industrial assistance. He still views the negotiation process as an accommodation to the Iranian position. For example, export refinery deals – important for long-term plans to boost earnings – have foundered on Iranian insistence that foreign partners obtain preferential tariff treatment for the refineries' output. Tehran has most successfully advanced its cause by large loans or contract prepayments with industrial suppliers such as the United

Kingdom and France. Paris, which has received $2 billion, is committed to provide nuclear powerplants and the enriched fuel for their operation. (Secret)■

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INDOCHINA: FOOD NEEDS MIXED

The new governments of Indochina face sharply different prospects for meeting their food requirements this year. South Vietnam possesses considerable stores of rice and should be able to get on without outside help. Cambodia, in contrast, faces a serious threat of famine unless substantial quantities of food are obtained from foreign donors.

South Vietnam

Despite tremendous social upheaval, the immediate food outlook in South Vietnam is good because of large stocks and possibilities for adjusting rations. The 1974/75 rice harvest, essentially completed before the final offensive, was a record high. Losses of rice from the hostilities probably did not exceed 200,000 tons. Rice stocks are estimated at 1.8 million tons, sufficient to meet needs until the autumn harvest. Some shifts in diet are likely as a result of a decline in the availability of meat, fish, and other foods.

Milled Rice Supply

	Thousand Tons
Available in 1974/75 crop year	4,000
Harvest	3,550
Stocks and imports	450
Used to date	2,200
Consumption	2,000
War losses	200
Currently available	**1,800**

Large national rice reserves do not preclude local shortages. Substantial quantities of rice will have to be shipped to the normally food-deficit provinces north of Saigon, which bore the brunt of the recent fighting and population dislocation. Large numbers of refugees in camps and urban areas must be fed until they can be returned to farms. In Saigon itself, restoration of stocks drawn down by merchants prior to the takeover will put some pressure on rice markets.

Distribution problems will be worsened at least in the short run by Communist attempts to eliminate the role played by Chinese and other private merchants. Delta farmers have been strongly conditioned to price signals, and the prevailing

wholesale trade is highly competitive and decentralized. Any government efforts to immediately replace this system with a system of official procurement at controlled prices would meet with some form of resistance from farmers and merchants.

Prospects for the next harvest are difficult to assess because it is early in the crop cycle and Communist agricultural policies are not yet clear. On the plus side are possible increases in sown area of a million hectares in previously insecure regions and additions to the farm labor supply through military demobilization. On the other hand, it will be difficult to return people to the land by May and June, the most favorable time for field preparation. The new Communist rulers may not be able to maintain the supplies of fertilizer, other chemicals, fuels, and equipment that have been largely responsible for South Vietnam's agricultural gains.

Cambodia

In Cambodia, food stocks are low. Even with belt tightening, the new government probably will have to seek 250,000 tons of foreign grain to avert starvation until the next harvest begins in late August. National rice stocks are probably not more than 300,000 tons, only enough to feed the country's population of 7.5 million for three months.

Distribution of the stocks will be especially difficult now that more than 2 million people have been dispersed from Phnom Penh and lesser urban centers. While this unprecedented forced migration will return 1-1/2 to 2 million refugees to the land, little or no thought has been given to efficient relocation. For the next several months, the fate of particular groups will hinge on whether they have been among the fortunate ones going to areas where stocks still exist or whether they are being left to reopen impoverished, abandoned farmland.

The Khmer Communists probably will not be able to meet the country's needs from domestic production in the 1975/76 crop year, despite the prospect of expanded sown acreage. The planting season begins later this month, and the government will be hard pressed to supply basic tools, seed, and fertilizers for timely preparation of fields. As in South Vietnam, some farmers would likely reduce effort in response to any large-scale collectivization program. These factors could limit the coming harvest to last year's level of about 1 million tons of milled rice. At current consumption rates, Cambodia would require another 200,000-300,000 tons to meet domestic needs in the next crop year. (Confidential)

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USSR: Distribution of Electric Power Capacity, 1970-75
(ER RP 75-14, May 1975, Confidential)

This publication lists all known Soviet electric powerplants of 24 megawatts and over and estimates the yearend installed capacity of each plant for 1970-75. The list is organized geographically by economic region, with a subdivision for each Union Republic, Oblast, Kray, or other regional division.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

May 14, 1975

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Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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